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C O N F I D E N T I A L SECTION 01 OF 02 KUWAIT 000011

SIPDIS

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TAGS: PREL PGOV PINR KU

SUBJECT: PARLIAMENT GIVES INITIAL APPROVAL TO BILL
FORGIVING CONSUMER LOAN INTEREST; GOK REJECTS THE MEASURE

REF: A. KUWAIT 1181

1B. KUWAIT 1195

1C. KUWAIT 1214

Classified By: Political Counselor Pete O'Donohue for reasons 1.4 b and d

Assembly Passes, GoK to Reject Loan Interest Forgiveness Bill

11. (C) Kuwait's National Assembly, by a vote of 35-22 (one abstention) on January 6 approved a bill sanctioning the write-off of interest on citizens' consumer loans and rescheduling their debts. (Note: Total consumer loans reached KD 5.2 bn (USD 18 bn) in November 2009. End note.) The GoK strongly opposed the bill and, in remarks voiced by Minister of Finance Mustafa Al-Shimali, contended that elements of the bill were unconstitutional and contrary to the tenets of Shariah and that enforcement would be incompatible with existing banking mechanisms. Al-Shimali announced prior to the parliamentary vote (and has reiterated since) that the GoK would reject the bill, claiming that the existing (if over-subscribed) national insolvency fund is a more appropriate tool to assist citizens experiencing financial difficulties. The Central Bank similarly chimed in, adding that such overreaching remedies to address a default rate of 3.3 percent of the overall population would fundamentally cripple the financial system.

Future of The Bill Doubtful

12. (SBU) With the GoK's expected imminent rejection of the bill, the measure will return to the National Assembly for further consideration. Proponents of the measure -- largely populist MPs -- then have the option of either trying to overcome the GoK veto with a two-thirds majority vote (for which they almost certainly do not have the numbers) or awaiting a vote in next year's session, in which a simple majority vote would suffice. Should the bill survive either scenario, the GoK would be obliged to implement it. However, there is a good chance that instead of simply rejecting the measure and returning it to the Parliament -- thereby setting the conditions for a contentious struggle down the road -- the GoK may choose instead to refer the bill to the Constitutional Court, where a verdict that the law as drafted is unconstitutional seems probable.

Saudi Vs. Kuwaiti Fatwas

13. (C) The issue of consumer loan interest forgiveness, a top campaign platform topic for several MPs in the May 2008 parliamentary elections, blurred the usual sectarian and factional lines among the MPs, pitting Islamist against

Islamist and Shi'a against Shi'a. Despite a fatwa issued by Salafi charity organization Revival of Islamic Heritage Society (RIHS) stating the bill is in violation of Shariah law, some Salafi and Islamist MPs -- led by former RIHS chair MP Khaled Al-Sultan -- broke ranks in support of loan interest forgiveness, citing fatwas of support emanating from Saudi Arabia. Shi'a MP Hassan Jowhar, who supported the bill's passage, criticized fellow Shi'a Finance Minister Al-Shimali on the assembly floor for mismanagement of the public finances. He also decried the "bondage" that the banks had imposed on Kuwaitis and said that ratification of the bill would signal to the Amir the "suffering of the people."

Comment: Pro-Government Coalition Fluid at Best

¶4. (C) The contentious debate on forgiving consumer loan interest has been brewing for several years, with MPs on all sides of the political spectrum (but more among the "tribalists" than the better-heeled urban elite) joining a populist wave and using the issue to curry favor with financially-strapped voters and take pot shots at the country's banks. At the same time, the government has made clear from the beginning that the issue is a non-starter and will be opposed all the way, giving opportunistic MPs the chance to pander to the "street" without having to worry about the financial consequences, as the measure is unlikely to survive implementation in its current form.

¶5. (C) A more worrisome observation is that the strong pro-government coalition that backed PM Shaykh Nasser

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Al-Muhammad during his December closed-door parliamentary grilling (refs A,B) was not in evidence for the vote on this measure, suggesting that earlier hopes of a more assertive pro-government coalition in the parliament -- one that would move quickly to approve an array of major infrastructure projects and pending legislation -- may have been overly optimistic. As one ex-MP noted sardonically to DCM "that sort of coalition is simply too expensive to maintain" (a reference to widespread rumors that the GOK spent millions of dollars to ensure the PM's parliamentary victory in December). End comment.

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